

Message Text

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47

ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /125 W

----- 051435

O R 291703Z SEP 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6039

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

UNCLAS SECTION 01 OF 03 LONDON 15560

DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652W: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD SEPT. 22-28TH

REF: (A) LONDON 15466; (B) LONDON 15399;

(C) LONDON 15383

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SUMMARY: OVERWHELMING ITEM THIS WEEK IS THE DECLINE IN

STERLING AND THE ANNOUNCEMENT THAT UK WILL APPLY FOR A
STANDBY WHICH WOULD MAKE AVAILABLE TO THE UK ITS REMAIN-
ING CREDIT TRANCHES IN THE IMF. IN ADDITION, THE WEEK
WAS NOTICEABLE FOR MAJOR INTERVIEWS ON ECONOMIC POLICY BY
THE CHANCELLOR AND THE PRIME MINISTER. END SUMMARY

1. THE POUND DECLINED BY NEARLY 8 CENTS TO 1.6378. OR
4 8 PERCENT AGAINST THE DOLLAR AND 7.8 PERCENT AGAINST ALL
OTHER CURRENCIES IN THE SEVEN DAYS ENDED SEPTEMBER 28.
THIS ENCOMPASSED A 4.3 CENT LOSS IN A THIN MARKET ON
SEPTEMBER 28. THE MARKET APPEARED TO MOVE DOWNWARD ON A
GENERAL LACK OF CONFIDENCE, RATHER THAN ON THE BASIS OF
ANY PARTICULAR ECONOMIC INDICATOR. THE BANK OF ENGLAND
HAS REMAINED ON THE SIDELINES. NOT GIVING SUPPORT TO STER-
LING. FOR DETAILS, SEE REF A.

2. STERLING'S FALL CULMINATED IN AN ANNOUNCEMENT ON SEP-
TEMBER 29 THAT THE UK WOULD SEEK AN IMF STANDBY IN THE
VALUE OF ITS REMAINING CREDIT TRANCHES. TAKING INTO AC-
COUNT THE ADDITIONAL 45 PERCENT TEMPORARY INCREASE AGREED
UPON AT THE JAMAICA CONFERENCE, THE TOTAL STANDBY COULD
BE AS HIGH AS \$3 9 BILLION.

3. BOTH THE PRIME MINISTER AND THE CHANCELLOR OF THE EX-
CHEQUER HAVE RULED OUT IMPORT CONTROLS AS A MEANS TO RE-
LIEVE THE PRESSURE ON THE POUND, AND HAVE REITERATED THE
NEED TO MAINTAIN TIGHT MONETARY AND FISCAL POLICY. (FOR
DETAILS, SEE REFS. B AND C)

4. THE UK IS SEEKING ANOTHER LARGE EUROMONEY BORROWING
UTILIZING THE EXCHANGE COVER SCHEME. THE ELECTRICITY
COUNCIL WILL BORROW \$500 MILLION FOR FIVE YEARS THROUGH
A CITIBANK-LED SYNDICATE. IT IS EXPECTED TO CARRY A
FLOATING INTEREST RATE OF 1-1/4 OVER LIBOR.

5 NEW EMPLOYMENT SUBSIDY. IN ANOTHER OF THE PERIODIC
EFFORTS TO EASE THE IMPACT OF UNEMPLOYMENT AMONG THE
YOUNG, EMPLOYMENT SECRETARY ALBERT BOOTH ANNOUNCED A
SCHEME WHICH WILL PERMIT MEN AND WOMEN WHO ARE WITHIN ONE
YEAR OF RETIREMENT AGE TO LEAVE THE LABOR FORCE IMMEDIATE-
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LY. THOSE OPTING TO DO SO WILL RECEIVE THEIR NORMAL PEN-
SION PLUS 23 POUNDS PER WEEK FREE OF TAX FOR A 12-MONTH
PERIOD. THE ADDITIONAL PAYMENT WAS DESIGNED IN PART TO
COMPENSATE FOR THE DIFFERENCE BETWEEN THE AVERAGE WEEKLY
WAGE AND THE AVERAGE PENSION AND ALSO TAKES INTO ACCOUNT
THE AVERAGE WEEKLY UNEMPLOYMENT BENEFIT CURRENTLY BEING
PAID. THE KEY TO THE SCHEME IS THAT EMPLOYERS WILL BE
EXPECTED TO REPLACE, DIRECTLY OR INDIRECTLY. EACH RETIR-

ING WORKER WITH SOMEONE WHO IS CURRENTLY UNEMPLOYED. THE
NET COST OF THE PROGRAM WHICH BEGINS ON JANUARY 3, 1977
AND WILL LAST 6 MONTHS IS ESTIMATED AT 27 MILLION POUNDS
AND MAY ATTRACT AS MANY AS 65,000 WORKERS INTO EARLY RE-
TIREMENT.

IN EFFECT, THE PROGRAM WILL ARTIFICALLY REDUCE TOTAL
UNEMPLOYMENT BY SHIFTING THE UNEMPLOYED YOUNG INTO PAID
EMPLOYMENT WHILE COSUPPLEMENTING THE PENSIONS OF THE
FORMERLY EMPLOYED OLDER PEOPLE BY AN AMOUNT EQUIVALENT TO
WHAT THEY WOULD HAVE RECEIVED BY DRAWING UNEMPLOYMENT IN-
SURANCE BUT NOT INCLUDING THEM AMONG UNEMPLOYED.

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OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 /125 W

----- 051721

O R 291703Z SEP 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6040

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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6. MANUFACTURING BORROWING RISES. BORROWING BY MANUFACTURING INDUSTRY ROSE DURING THE THREE MONTHS THROUGH MID-AUGUST; THE FIRST SUCH QUARTERLY RISE IN OVER A YEAR. ACCORDING TO THE BANK OF ENGLAND FIGURES, TOTAL ADVANCES TO MANUFACTURING INDUSTRY INCREASED BY 581 MILLION POUNDS DURING THE PERIOD AFTER A DECLINE OF 70 MILLION DURING THE THREE MONTHS THROUGH MID-MAY. THE LARGEST RISE (150 MILLION POUNDS) OCCURRED IN THE ENGINEERING SECTOR. HOW-UNCLASSIFIED

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EVER, THERE WERE ALSO INCREASES IN THE BORROWING TOTALS OF EACH OF THE SEVEN OTHER CATEGORIES OF MANUFACTURING INDUSTRY COVERED BY THE DATA. TOTAL BANK LENDING TO ALL CATEGORIES OF BORROWERS INCREASED BY 1.54 BILLION POUNDS OF WHICH 83.53 PERCENT WAS IN STERLING AND THE REST IN FOREIGN CURRENCY. THIS WAS THE LARGEST THREE-MONTH INCREASE SINCE THE BANK OF ENGLAND REORGANIZED THE DATA AT THE BEGINNING OF 1975 AND IN PART REFLECTS THE RECOVERY IN PRIVATE SECTOR BORROWING PLUS THE CONTINUING NEED TO FINANCE A PUBLIC SECTOR BORROWING REQUIREMENT RUNNING AT AN ANNUAL RATE IN EXCESS OF 10 BILLION POUNDS. THE DECLINE IN THE VALUE OF STERLING ALSO CAUSED AN INCREASE IN THE STERLING VALUE OF FOREIGN LOANS (ROUGHLY 117 MILLION POUNDS OF THE 371 MILLION POUND THREE-MONTH TOTAL).

7. THE TREASURY BILL RATE FELL 10.34 PERCENT TO 12.3454 PERCENT AT THE SEPTEMBER 29 AUCTION. LEAVING THE MINIMUM LENDING RATE UNCHANGED AT 13 PERCENT.

8. EXCHANGE RATE AND GOLD

EFFECTIVE

DATE	EXCHANGE (RATE \$)	DEPRECIATION (PERCENT)	GOLD \$
9/22	1.7160	42.4	118
9/23	1.7115	42.5	118-1/4
9/24	1.7060	42.7	119-1/4
9/27	1.6810	43.6	118-1/2
9/28	1.6378	45.5	116-3/4

CHANGE 9/21-9/28 DN .0792 WIDENED 3.3 DN 2.3/4

9. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/22	1.35	3.82	7.55
9/23	1.28	3.88	7.57
9/24	1.30	3.85	7.55

9/27	1.35	3 95	7 65
9/28	1.40	4.05	7 80

CHANGE 9/21-9/28 WIDENED .05 WIDENED .23 WIDENED .30
(ALL FIGURES IN CENTS)

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SS-15 STR-04 CEA-01 /125 W
----- 051755

O R 291703Z SEP 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 6041
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
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10. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/22	5	5-1/2	5-7/8
9/23	5-3/8	5-1/2	6
9/24	5-1/4	5-1/2	5-7/8
9/27	5-5/8	5-5/8	6
9/28	5-3/4	5-3/4	6-6/8

CHANGE 9/21-9/28 UP 3/8 UP 1/4 UP L/8

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L1. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
9/22	7-7/32
9/23	7-1/8
9/24	7.1/8
9/27	7
9/28	6-15/16

12. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/22	12-5/8	12 43/64	12-11/16
9/23	12-11/16	12-21/32	12-17/32
9/24	12-23/32	12-9/16	12-15/32
9/27	12-3/4	12-9/16	12-13/32
9/28	12-3/4	12-3/4	12-3/4

CHANGE 9/21-9/28 UP 1/4 UNCHANGED UNCHANGED

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Margaret P. Grafeld
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04 MAY 2006

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